



Management's Discussion and Analysis and
Financial Statements
June 30, 2013 and 2012

McCurtain County Hospital Authority

McCurtain County Hospital Authority

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June 30, 2013 and 2012

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Independent Auditor's Report

Board of Trustees
McCurtain County Hospital Authority
Idabel, Oklahoma

Report on the Financial Statements

We have audited the accompanying financial statements of McCurtain County Hospital Authority, (Authority) which comprise the balance sheets as of June 30, 2013 and 2012, and the related statements of revenues, expenses and changes in net position and cash flows for the years then ended, and related notes to the financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free of material misstatements.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of McCurtain County Hospital Authority as of June 30, 2013 and 2012, and the results of its operations, changes in net position, and cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 3 through 6 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Reporting Required by Government Auditing Standards

In accordance with Government Auditing Standards, we have also issued our report dated October 9, 2013 on our consideration of McCurtain County Hospital Authority's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, grant agreements, and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering McCurtain County Hospital Authority's internal control over financial reporting and compliance.



Oklahoma City, Oklahoma
October 9, 2013

Introduction

Our discussion and analysis of McCurtain County Hospital Authority (Authority) provides an overview of the Authority's financial activities for the years ended June 30, 2013 and 2012. It should be read in conjunction with the accompanying financial statements of the Authority.

Financial Highlights

- Total assets decreased in 2013 by \$932,942 or 15% and decreased by \$891,568 or 13% in 2012.
- Total liabilities decreased in 2013 by \$496,202 or 100% and decreased by \$328,823 or 40% in 2012.
- Operating revenues decreased in 2013 by \$16,242 or 50% and decreased by \$23,391 or 42% in 2012.
- Operating loss decreased in 2013 by \$3,168 or 28% and increased by \$2,244 or 25% in 2012.
- The Authority's net position decreased in 2013 by \$436,740 or 8% compared with a decrease of \$562,745 or 9% in 2012.

Using This Annual Report

The Authority's financial statements consist of three statements - a balance sheet; a statement of revenues, expenses and changes in net position; and a statement of cash flows. These financial statements and related notes provide information about activities of the Authority, including resources held by the Authority but restricted for specific purposes by contributors, grantors, or enabling legislation. The Authority is accounted for as a business-type activity and presents its financial statements using the economic resources measurement focus and the accrual basis of accounting.

The Balance Sheet and Statement of Revenues, Expenses and Changes in Net Assets

One of the most important questions asked about the Authority's finances is "Is the Authority as a whole better or worse off as a result of the year's activities?" The Balance Sheet and the Statement of Revenues, Expenses and Changes in Net Position report information about the Authority's resources and its activities in a way that helps answer this question. These statements include all restricted and unrestricted assets and liabilities using the accrual basis of accounting. All of the current year's revenues and expenses are taken into account regardless of when cash is received or paid.

These two statements report the Authority's net position and changes in them. You can think of the Authority's net position - the difference between assets and liabilities - as one way to measure the Authority's financial health, or financial position. Over time, increases or decreases in the Authority's net position are one indicator of whether its financial health is improving or deteriorating. You will need to consider other nonfinancial factors, however, such as local economic factors to assess the overall health of the Authority.

The Statement of Cash Flows

The final required statement is the Statement of Cash Flows. The statement reports cash receipts, cash payments, and net changes in cash resulting from operations, investing and financing activities. It provides answers to such questions as where did cash come from, what was cash used for and what was the change in cash balance during the reporting period.

The Authority's Net Position

The Authority's net position is the difference between its assets and liabilities reported in the Balance Sheet. The Authority's net position decreased by \$436,740 or 8% in 2013 over 2012 compared with \$562,745 decrease or 9% in 2012 compared with 2011 as shown in Table 1.

Table 1: Assets, Liabilities and Net Position

	2013	2012	2011
Assets			
Current assets	\$ 423,400	\$ 367,464	\$ 402,273
Noncurrent cash and investments	22,535	447,879	551,333
Capital assets	4,731,901	5,163,297	5,609,578
Other assets	-	132,138	439,162
Total assets	<u>\$ 5,177,836</u>	<u>\$ 6,110,778</u>	<u>\$ 7,002,346</u>
Liabilities			
Current maturities	\$ -	\$ 307,024	\$ 293,660
Other current liabilities	-	57,040	92,203
Long term debt	-	132,138	439,162
Total liabilities	<u>-</u>	<u>496,202</u>	<u>825,025</u>
Net Position			
Net investment in capital assets	4,731,901	4,724,135	4,876,756
Restricted:			
For debt service	-	325,474	324,739
Expendable for capital acquisitions	22,535	122,405	259,657
Unrestricted	423,400	442,562	716,169
Total net position	<u>5,177,836</u>	<u>5,614,576</u>	<u>6,177,321</u>
Total liabilities and net position	<u>\$ 5,177,836</u>	<u>\$ 6,110,778</u>	<u>\$ 7,002,346</u>

Total assets in 2013 decreased by \$932,942 or 15% as compared to 2012. The primary components of the decrease in assets are:

- A decrease in capital assets of \$431,396 or 8% due primarily to changes in accumulated depreciation of \$429,050 compared with a decrease of \$446,281 or 8% in 2012.

- A decrease in other assets of \$132,138 or 30% due primarily to the decrease in Note Receivable (Hospital) which was collected during the year compared with a decrease of \$307,024 or 70% in 2012.
- A decrease in cash, restricted investments and reserve funds of \$192,380 or 40% due primarily to the early pay off of the long term debt compared with a decrease of \$144,191 or 23% in 2012.

Operating Results and Changes in Net Position

Table 2: Operating Results and Changes in Net Position

	2013	2012	2011
Operating Revenues			
Interest income	\$ 1,788	\$ 4,571	\$ 15,089
Lease income	14,181	27,640	40,513
Total operating revenues	<u>15,969</u>	<u>32,211</u>	<u>55,602</u>
Operating Expenses			
Interest expense	8,239	27,640	40,513
Other	32	-	8,010
Professional fees	15,756	15,797	16,061
Total operating expenses	<u>24,027</u>	<u>43,437</u>	<u>64,584</u>
Operating Loss	(8,058)	(11,226)	(8,982)
Non-operating Revenue (Expenses)			
Gain/(Loss) on disposal of asset	<u>368</u>	<u>(2,332)</u>	<u>-</u>
Expenses in excess of Revenue before Capital Transfers	(7,690)	(13,558)	(8,982)
Capital Transfers			
Transfer of depreciation on equipment utilized by hospital	(429,050)	(449,187)	(390,655)
Transfer of capital to hospital for capital acquisitions	<u>-</u>	<u>(100,000)</u>	<u>-</u>
Decrease in net position	<u>\$ (436,740)</u>	<u>\$ (562,745)</u>	<u>\$ (399,637)</u>

Operating Income

The first component of the overall change in the Authority's net assets is its operating income - the difference between operating revenues and expenses. In the current year, the Authority had an operating loss.

Operating loss for 2013 decreased by \$3,168 or 28% as compared to 2012 compared to increase of \$2,244 or 25% in 2012. The primary components of the decreasing operating loss are:

- A decrease in lease income of \$13,459 or 49% compared with a decrease of \$12,873 or 32% in 2012.
- A decrease in interest income of \$2,783 or 61% compared with a decrease of \$10,518 or 70% in 2012.
- A decrease in interest expense of \$19,401 or 70% compared with a decrease of \$12,873 or 32% in 2012.

The Authority's Cash Flows

Changes in the Authority's cash flows are consistent with changes in operating income and expenses.

Debt Administration

At June 30, 2013, the Authority had \$-0- in outstanding debt compared with outstanding debt of \$439,162 in 2012. In December 2012 the Authority paid off the outstanding debt and did not obtain any additional financing.

Contacting the Authority's Financial Management

This financial report is designed to provide our suppliers and creditors with a general overview of the Authority's finances and to show the Authority's accountability for the money it receives. Questions about this report and requests for additional financial information should be directed to the Authority's administration by calling (580) 208-3104.

McCurtain County Hospital Authority
 Balance Sheets
 June 30, 2013 and 2012

	<u>2013</u>	<u>2012</u>
Assets		
Current Assets		
Cash	\$ 290,306	\$ 57,212
Notes receivable	132,138	307,024
Interest receivable	956	3,228
	<u>423,400</u>	<u>367,464</u>
Total current assets		
Assets Limited as to Use		
Due from County	22,535	22,405
Restricted investments	-	100,000
Reserve fund required by loan resolution	-	325,474
	<u>22,535</u>	<u>447,879</u>
Total assets limited as to use		
Capital Assets, Net	<u>4,731,901</u>	<u>5,163,297</u>
Other Assets		
Notes receivable, net	-	132,138
	<u>-</u>	<u>132,138</u>
Total assets	<u><u>\$ 5,177,836</u></u>	<u><u>\$ 6,110,778</u></u>
Liabilities and Net Position		
Current Liabilities		
Current maturities of long-term debt	\$ -	\$ 307,024
Accrued interest payable	-	3,140
Advances from related party	-	53,900
	<u>-</u>	<u>364,064</u>
Total current liabilities		
Long-Term Debt, Net of current maturities	<u>-</u>	<u>132,138</u>
Total liabilities	<u>-</u>	<u>496,202</u>
Net Position		
Invested in capital assets net of related debt	4,731,901	4,724,135
Restricted		
For debt service	-	325,474
Expendable for capital acquisitions	22,535	122,405
Unrestricted	423,400	442,562
	<u>5,177,836</u>	<u>5,614,576</u>
Total net position		
Total liabilities and net position	<u><u>\$ 5,177,836</u></u>	<u><u>\$ 6,110,778</u></u>

McCurtain County Hospital Authority
Statements of Revenues, Expenses and Changes in Net Position
Years Ended June 30, 2013 and 2012

	<u>2013</u>	<u>2012</u>
Operating Revenues		
Interest income	\$ 1,788	\$ 4,571
Lease income	<u>14,181</u>	<u>27,640</u>
Total operating revenues	<u>15,969</u>	<u>32,211</u>
Operating Expenses		
Interest	8,239	27,640
Other	32	-
Professional fees	<u>15,756</u>	<u>15,797</u>
Total operating expenses	<u>24,027</u>	<u>43,437</u>
Operating loss	(8,058)	(11,226)
Nonoperating Revenue (Expenses)		
Gain (loss) on disposal of asset	<u>368</u>	<u>(2,332)</u>
Expenses in Excess of Revenue Before Capital Transfers	(7,690)	(13,558)
Capital Transfers		
Transfer of depreciation on equipment utilized by the Hospital	(429,050)	(449,187)
Transfer of capital to the hospital for capital acquisition	<u>-</u>	<u>(100,000)</u>
Decrease in Net Position	(436,740)	(562,745)
Net Position, Beginning of Year	<u>5,614,576</u>	<u>6,177,321</u>
Net Position, End of Year	<u><u>\$ 5,177,836</u></u>	<u><u>\$ 5,614,576</u></u>

McCurtain County Hospital Authority
 Statements of Cash Flows
 Years Ended June 30, 2013 and 2012

	<u>2013</u>	<u>2012</u>
Operating Activities		
Operating receipts	\$ 18,111	\$ 34,407
Operating expenditures	<u>(69,688)</u>	<u>(15,797)</u>
Net Cash used for Operating Activities	<u>(51,577)</u>	<u>18,610</u>
Capital and Capital Related Financing Activities		
Capital transfer	-	(100,000)
Purchase of capital assets	-	(5,238)
Release of funds from county for property purchase	-	5,240
Proceeds from the sale of equipment	2,714	-
Principal payments on long term debt	(439,162)	(293,660)
Interest paid on long-term debt	<u>(11,379)</u>	<u>(29,740)</u>
Net Cash used for Capital and Related Financing Activities	<u>(447,827)</u>	<u>(423,398)</u>
Investing Activities		
Proceeds from note receivable	307,024	293,660
Proceeds from redemption of certificates of deposit	<u>100,000</u>	<u>100,000</u>
Net Cash from Investing Activities	<u>407,024</u>	<u>393,660</u>
Net Change in Cash	(92,380)	(11,128)
Cash, Beginning of Year	<u>382,686</u>	<u>393,814</u>
Cash, End of Year	<u><u>\$ 290,306</u></u>	<u><u>\$ 382,686</u></u>
Reconciliation of Cash to Balance Sheets		
Cash in current assets	\$ 290,306	\$ 57,212
Cash in assets limited as to use		
Cash restricted by reserve fund required by loan resolution	<u>-</u>	<u>325,474</u>
	<u><u>\$ 290,306</u></u>	<u><u>\$ 382,686</u></u>

McCurtain County Hospital Authority
Statements of Cash Flows
Years Ended June 30, 2013 and 2012

	<u>2013</u>	<u>2012</u>
Reconciliation of Operating Loss to Net Cash		
Provided by Operating Activities		
Operating loss	\$ (8,058)	\$ (11,226)
Adjustments to reconcile operating loss to net cash from operating activities:		
Interest income held by the County	(130)	(1,050)
Interest expense considered financing activity	8,239	27,640
Changes in assets and liabilities		
Accrued interest receivable	2,272	3,246
Advances from related party	(53,900)	-
Net Cash Used for Operating Activities	<u><u>\$ (51,577)</u></u>	<u><u>\$ 18,610</u></u>
 Supplemental Disclosure of Cash Flow Information		
Transfer of non-cash assets from McCurtain County to the McCurtain County Hospital Authority		
Interest earned	\$ 130	\$ 1,050
Transfer depreciation on equipment utilized by the Hospital	<u>(429,050)</u>	<u>(449,187)</u>
Net transfer of non-cash assets	<u><u>\$ (428,920)</u></u>	<u><u>\$ (448,137)</u></u>

Note 1 - Organization and Significant Accounting Policies

Reporting Entity

McCurtain County Hospital Authority (Authority), a trust of which McCurtain County, Oklahoma, is beneficiary, was created by a trust indenture dated as of June 23, 1971, and amended as of September 18, 1972, to, among other things, construct, maintain and operate hospitals and other medical facilities for use by the United States of America, State of Oklahoma or any municipality or political subdivision of the State of Oklahoma.

On December 1, 1972, amended November 3, 1999, the County leased to the Authority all real and personal property relating to the hospital facilities owned by the County. In consideration of the lease, the Authority agreed to operate the hospital facilities owned by the County. The lease agreement terminates on December 31, 2022, with a renewal option by the Authority for a term of fifty years, but in no event is the termination of the lease agreement to occur prior to the date any obligations of the Authority have been paid in full or sufficient funds to pay these obligations are held in trust.

On April 1, 1975, (most recently amended November 3, 1999) the Authority subleased all real and personal property, unexpired contracts and leases, and revenue of the hospital to McCurtain Memorial Medical Management, Inc., d/b/a McCurtain Memorial Hospital (Hospital). This is a non-profit corporation created under "The Non-Profit Corporation Act" of the State of Oklahoma. Under the sublease agreement, the (Hospital) is managed and operated by McCurtain Memorial Medical Management, Inc., subject to the provisions of the lease agreement between the Authority and the County.

New Accounting Pronouncements

Statement No. 63 *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position*, provides financial reporting guidance for deferred outflows of resources and deferred inflows of resources. Concepts Statement No. 4, *Elements of Financial Statements*, introduced and defined those elements as a consumption of net position by the government that is applicable to a future reporting period, and an acquisition of net position by the government that is applicable to a future reporting period, respectively. Previous financial reporting standards do not include guidance for reporting those financial statement elements, which are distinct from assets and liabilities. The provisions of this statement are effective for financial statements for periods beginning after December 15, 2011.

Measurement Focus and Basis of Accounting

The financial statements of the Authority have been prepared on the accrual basis of accounting using economic resources measurement focus. Revenues, expenses, gains, losses, assets and liabilities from exchange and exchange like transactions are recognized when the exchange transaction takes place, while those from government mandated non-exchange transactions (principally federal and state grants and county appropriations) are recognized when all eligibility requirements are met. Operating revenues and expenses include exchange transactions and program specific, government-mandated non-exchange transactions. Government-mandated non-exchange transactions that are not program specific (such as county appropriations), sales taxes, property taxes, investment income and interest on capital assets-related debt are included in non-operating revenues and expenses. The Authority first applies restricted net position when an expense or outlay is incurred for purposes for which both restricted and unrestricted net position is available.

Income Taxes

As an essential government function of McCurtain County, the Authority is exempt from income taxes under section 115 of the internal revenue code and a similar provision of state law. However, the Authority is subject to federal income tax on any unrelated business taxable income.

Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Cash Equivalents

The Authority considers all liquid investments with original maturities of three months or less to be cash equivalents.

Notes Receivable

Notes receivable are stated at principal amounts and are secured by (Hospital) revenue and property. Payments of notes receivable are allocated first to accrued and unpaid interest with the remainder to the outstanding principal balances. Management reviews all notes receivable balances periodically and estimates a portion, if any, of the balances that will not be collected.

Capital Assets

Capital asset acquisitions are capitalized and are recorded at cost. Capital assets donated for Authority operations are recorded as additions to net position at fair value at the date of receipt. Depreciation is provided over the estimated useful life of each class of depreciable asset and is computed using the straight-line method. The estimated useful lives of capital assets are as follows:

	<u>Depreciable Life</u>
Buildings and improvements	5-40 years
Fixed equipment	15-20 years
Major movable equipment	3-15 years

Net Position

The balance sheet displays the Authority's assets and liabilities, with the difference reported as net position. Net position is reported in the following categories/components:

Net investment in capital assets, consists of capital assets, net of accumulated depreciation and reduced by outstanding balances for bonds, notes, and other debt attributable to the acquisition, construction, or improvement of those assets.

Restricted Expendable for debt service-consist of assets restricted to payment of long-term debt.

Restricted Expendable for capital acquisition-consist of assets restricted for the purchase of capital assets and improvements.

Unrestricted is remaining net position that does not meet the definition of “net investment in capital assets”, “expendable for debt service” or “expendable for capital acquisition”.

Operating Revenues and Expenses

The Authority's statement of revenues, expenses and changes in net position distinguishes between operating and nonoperating revenues and expenses. Operating revenues result from exchange transactions associated with the rental of the Hospital facility, the Authority's principal activity. Non exchange revenues, including taxes, grants and contributions received for purposes other than capital asset acquisition, are reported as nonoperating revenues. Operating expenses are all expenses incurred to maintain the facility in accordance with agreements.

Note 2 - Deposits and Investments

State statutes require public trusts to invest monies in financial institutions only in collateralized or insured certificates of deposit and other evidences of deposit. It is the Authority's practice to mainly invest in demand and time deposit accounts and certificates of deposit. The following is a summary of deposits and investments at June 30, 2013 and 2012:

	<u>2013</u>	<u>2012</u>
Total Bank Balance		
Insured (FDIC)	\$ 288,053	\$ 407,210
Collateralized by securities held by the pledging financial institutions trust department in the Authority's name	-	75,476
Uninsured	<u>2,253</u>	<u>-</u>
Total	<u><u>\$ 290,306</u></u>	<u><u>\$ 482,686</u></u>
Total Carrying Value		
Cash	\$ 290,306	\$ 57,212
Assets limited as to use	<u>-</u>	<u>425,474</u>
Total	<u><u>\$ 290,306</u></u>	<u><u>\$ 482,686</u></u>

Custodial credit risk is risk that in the event of bank failure, a government's deposits may not be returned to it. The Authority's deposit policy for custodial credit risk requires compliance with the provisions of state law.

State law requires collateralization of all deposits with federal depository insurance or other qualified investments. At June 30, 2013 and 2012 the carrying amount of the Authority's deposits including certificates of deposits were \$290,306 and \$482,686 and the bank balances were \$290,306 and \$482,686. As of June 30, 2013 and 2012 \$2,253 and \$ -0- were exposed to custodial credit risk.

Note 3 - Notes Receivable

The following is a summary for the notes receivable as of June 30, 2013 and 2012:

	Balance June 30, 2012	Additions	Reductions	Balance June 30, 2013	Amounts Within One Year
Due from Hospital	<u>\$ 439,162</u>	<u>\$ -</u>	<u>\$ 307,024</u>	<u>\$ 132,138</u>	<u>\$ 132,138</u>

	Balance June 30, 2011	Additions	Reductions	Balance June 30, 2012	Amounts Within One Year
Due from Hospital	<u>\$ 732,822</u>	<u>\$ -</u>	<u>\$ 293,660</u>	<u>\$ 439,162</u>	<u>\$ 307,024</u>

The terms and dates of the Authority's note receivable at June 30, 2013 and 2012, are as follows:

4.50 % note due from Hospital in semi-annual payments in May and November through 2014 - Secured by Hospital revenue and property

Scheduled principal and interest repayments on notes receivable are as follows:

<u>Year Ending June 30,</u>	<u>Principal</u>	<u>Interest</u>
2014	<u>\$ 132,138</u>	<u>\$ 2,998</u>

Note 4 - Assets Limited as to Use

Assets limited as to use that are required for obligations classified as current liabilities are reported in current assets. The composition of assets limited as to use at June 30, 2013 and 2012, is set forth in the following table:

	2013	2012
Due from County	\$ 22,535	\$ 22,405
Restricted investments	-	100,000
Reserve fund required by loan resolution	-	325,474
	<u>\$ 22,535</u>	<u>\$ 447,879</u>

In December of 2012 the Authority paid off the loan requiring the reserve fund and restricted investments, the remaining funds after payment of the debt were released into unrestricted cash.

Note 5 - Due from County

The Authority is not receiving any sales tax due to the sales tax ordinance expiring during 2010. The County still retains a portion of the sales tax which was collected on behalf of the Authority while the ordinance was in effect.

Amounts are disbursed from the County upon receipt of approved purchase orders from the Authority. The remainder is retained by the County until the Authority forwards approved purchase orders. The following is a summary for the receivable from the County as of June 30, 2013 and 2012:

	2013	2012
Beginning Balance	\$ 22,405	\$ 59,657
Interest earned	130	1,050
Purchases	-	(38,302)
Ending Balance	<u>\$ 22,535</u>	<u>\$ 22,405</u>

Note 6 - Capital Assets

Capital asset additions, retirements, and balances for the years ended June 30, 2013 and 2012 were as follows:

	Balance June 30, 2012	Additions	Transfers	Reductions	Balance June 30, 2013
Building and improvements	\$ 5,520,323	\$ -	\$ -	\$ -	\$ 5,520,323
Major moveable equipment	1,273,433	-	-	(2,933)	1,270,500
Fixed equipment	261,723	-	-	-	261,723
Totals at historical cost	<u>7,055,479</u>	<u>-</u>	<u>-</u>	<u>(2,933)</u>	<u>7,052,546</u>
Less accumulated depreciation					
Building and improvements	899,012	311,892	-	-	1,210,904
Major moveable equipment	914,568	100,861	-	(587)	1,014,842
Fixed equipment	78,602	16,297	-	-	94,899
Total accumulated depreciation	<u>1,892,182</u>	<u>429,050</u>	<u>-</u>	<u>(587)</u>	<u>2,320,645</u>
Capital assets, net	<u>\$ 5,163,297</u>	<u>\$ (429,050)</u>	<u>\$ -</u>	<u>\$ (2,346)</u>	<u>\$ 4,731,901</u>

McCurtain County Hospital Authority
Notes to Financial Statements
June 30, 2013 and 2012

	Balance June 30, 2011	Additions	Transfers	Reductions	Balance June 30, 2012
Building and improvements	\$ 5,521,196	\$ -	\$ -	\$ (873)	\$ 5,520,323
Major moveable equipment	1,283,643	5,238	-	(15,448)	1,273,433
Fixed equipment	261,723	-	-	-	261,723
Totals at historical cost	7,066,562	5,238	-	(16,321)	7,055,479
Less accumulated depreciation					
Building and improvements	587,120	311,892	-	-	899,012
Major moveable equipment	793,570	120,998	-	-	914,568
Fixed equipment	76,294	16,297	-	(13,989)	78,602
Total accumulated depreciation	1,456,984	449,187	-	(13,989)	1,892,182
Capital assets, net	\$ 5,609,578	\$ (443,949)	\$ -	\$ (2,332)	\$ 5,163,297

Note 7 - Long-Term Debt

Long-term debt consists of:

	Balance June 30, 2012	Additions	Reductions	Balance June 30, 2013	Amounts Within One Year
Note payable	\$ 439,162	\$ -	\$ 439,162	\$ -	\$ -

	Balance June 30, 2011	Additions	Reductions	Balance June 30, 2012	Amounts Within One Year
Note payable	\$ 732,822	\$ -	\$ 293,660	\$ 439,162	\$ 307,024

The terms and dates of the Authority's notes payable at June 30, 2013 and 2012, are as follows:

4.50% note payable to Rural Housing Service was paid off in December 2012. The secured mortgage was released.

Note 8 - Economic Dependency

The Authority received all principal and interest payments for debt payments from the Hospital.

Note 9 - Related Party Transactions

The Authority subleased to the Hospital, a 501(c) (3) non profit, the facilities and the property, real or personal or both, owned by or leased under the control of the Authority as set in the sublease agreement, including all buildings, structures, fixtures and other improvements now or hereafter constructed, erected or placed hereon. The original sublease was dated April 1, 1975. This sublease was executed to insure the more efficient management and operation of the Hospital for both the users of the facilities and the holders of the loans. As part of the amended and restated sublease agreement dated November 3, 1999, the Hospital agreed to pay rental to the Authority for the debt service obligation as provided for in the loan documents. The Authority paid off the original debt service obligation early, however the Hospital is continuing to make monthly payments in accordance with the original payment plan established in the sub lease. The Hospital will fulfill it's obligation to the Authority in November 2013.

At June 30, 2013 and 2012, the Hospital had paid \$14,181 and \$27,640, respectively, to the Authority for lease payments. The Hospital advances funds to the Authority to satisfy its obligations when due. At June 30, 2013 and 2012, \$- and \$53,900, respectively, were due to the Hospital for advances to the Authority for unrestricted use.

Note 10 - Subsequent Events

The Authority has evaluated subsequent events through October 9, 2013, the date which the financial statements were available to be issued.

**Independent Auditor's Report on Internal Control over Financial Reporting and on
Compliance and Other Matters Based on an Audit of Financial Statements
Performed in Accordance with Government Auditing Standards**

Board of Trustees
McCurtain County Hospital Authority
Idabel, Oklahoma

We have audited, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States the accompanying balance sheet of McCurtain County Hospital Authority, as of June 30, 2013, and the related statements of revenues, expenses and changes in net position, and cash flows for the year then ended, and related notes to the financial statements, which collectively comprise McCurtain County Hospital Authority's basic financial statements and have issued our report thereon dated October 9, 2013.

Internal Control over Financial Reporting

In planning and performing our audit, we considered McCurtain County Hospital Authority's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of McCurtain County Hospital Authority's internal control. Accordingly, we do not express an opinion on the effectiveness of the McCurtain County Hospital Authority's internal control.

Our consideration of internal control was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control that might be material weakness or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified,. However, as described in the accompanying schedule of findings, we identified certain deficiencies in internal control that we consider to be material weaknesses.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. We consider the deficiencies in the accompanying schedule of findings to be material weaknesses: 2013-A and 2013-B.

A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether McCurtain County Hospital Authority's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed one instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards: 2013C*.

McCurtain County Hospital Authority Response to Findings

McCurtain County Hospital Authority's responses to the findings identified in our audit are described in the accompanying schedule of findings. McCurtain County Hospital Authority's responses was not subjected to auditing procedures applied in the audit of financial statements and, accordingly, we express no opinion on them.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

A handwritten signature in cursive script that reads "Eide Sallie LLP".

Oklahoma City, Oklahoma
October 9, 2013

Material Weaknesses In Internal Control Over Financial Reporting

2013-A Preparation of Financial Statements

Criteria or Specific Requirement – Auditing standards require the auditor to assess the District’s accounting staff’s ability to apply General Accepted Accounting Principles (GAAP) on an ongoing basis.

Condition – As auditors, we were requested to draft the financial statements, and accompanying notes to the financial statements. The Authority does not have an internal control system over financial reporting designed to provide for the preparation of the financial statements, including the accompanying footnotes as required by generally accepted accounting principles, on a periodic or annual basis.

Effect –Material misstatements in the financial statements could occur and may be not prevented or detected and corrected by management in a timely manner.

Cause – The Board had considered the cost benefit of improving the internal control over financial reporting and has decided to accept the risk associated with this condition.

Recommendation - It is the responsibility of management and those charged with governance to make the decision whether to accept the degree of risk associated with this condition because of cost or other considerations.

Views of Responsible Officials and Planned Corrective Actions – Management accepts the risk associated with this condition.

2013-B Segregation of Duties

Criteria or Specific Requirement – A properly designed system of internal control segregates the initiation, record keeping, and authorization of transactions.

Condition – During the course of our engagement, we noted that the Authority has limited staff completing incompatible accounting functions due to the size of the entity.

Effect –The effect of this condition is individuals with incompatible duties could cause or create material misstatements in the financial statement that otherwise would not be detected or prevented.

Cause – The Board had considered the cost benefit of improving the internal control over financial reporting and has decided to accept the risk associated with this condition.

Recommendation - It is the responsibility of management and those charged with governance to make the decisions whether to accept the degree of risk associated with this condition because of cost or other considerations.

Views of Responsible Officials and Planned Corrective Actions – Management accepts the risk associated with this condition.

Significant Deficiency In Internal Control over Compliance

2013-C Deposits Exposed to Custodial Risk

Criteria or Specific Requirement – State law requires collateralization of all deposits with federal depository insurance or other qualified investments.

Condition – At June 30, 2013 the Authority had \$2,253 exposed to custodial credit risk.

Effect –The effect of this condition is violation of State law.

Cause – The Authority has several accounts which have collateral agreements with banks, however one bank does not have a collateral agreement and contained deposits in excess of FDIC limits.

Recommendation - It is the responsibility of management to periodically review collateralization agreements in conjunction with bank deposits

Views of Responsible Officials and Planned Corrective Actions – Management is in the process of establishing a collateral agreement with the bank.